County of Los Angeles
CHIEF EXECUTIVE OFFICE
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WILLIAM T FUJIOKA
Chief Executive Officer

February 21, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

REPORT REGARDING SINGLE RATING POOL FOR KAISER

On September 11, 2007, the Board of Supervisors directed the Chief Executive Officer to retain an actuary to determine the merits of establishing a single rating pool for the County's Kaiser population. This would effectively combine the represented and non-represented employee populations into one group for purposes of negotiating annual premium rate adjustments for the Kaiser program. This memo provides the actuary's report (attached) and our recommendations based on that report.

Single Rating Pool Not Recommended

We do not recommend that the County combine the represented and non-represented Kaiser populations into a single rating pool. The principal reasons are as follows:

- Our consulting actuary (Mercer) points out that a single rating pool would not reduce the overall premium expense for Kaiser or the overall benefit utilization on which the premiums are ultimately based. There would be no new economy of scale (i.e. no reduction in administrative costs) that has not already been realized by the County. Total expense to Kaiser would remain the same.

- Although total premium expense would remain the same, a single rating pool would necessarily change the rates that would otherwise apply to the sub-populations comprising the pool (i.e. the Choices, Options, and Flex/MegaFlex populations). However, there would be winners and losers in that calculation, and that situation would likely flip flop from year-to-year. For example, combining the groups in 2008 would have decreased the Flex/MegaFlex premium rates and increased Choices and Options premium rates. In 2007, the circumstances would have been reversed.

- The creation of a single rating pool would be the proper subject of bargaining with employee representatives. Even changes affecting only non-represented employees, such as changes in benefit options or co-pays, could be subject to bargaining to the extent they impact the overall pool. The County's current fringe benefit agreements with the Coalition of County Unions and SEIU, Local 721, do not expire until September 30, 2009.

For these and other reasons pointed out in the attached Mercer report, we do not recommend pursuing a single rating pool.

Additional Instruction in the September 11, 2007 Board Order

The aforementioned Board order also instructed the Chief Executive Officer to form and lead a taskforce comprised internally of the Departments of Human Resources, and the Auditor-Controller working in concert with Mercer, to actively solicit participation from other local governmental jurisdictions to:

- Examine the feasibility of forming a Statewide consortium of local governmental bodies seeking to obtain industry-standard data, which would validate increasing healthcare insurance rates from Kaiser Permanente and any other insurance providers;

- Examine the opportunities for the Los Angeles County to implement innovative healthcare insurance cost savings initiatives beyond our Cost Mitigation Goals and Objectives Program consisting of programs including, but not limited to, those currently utilized by other large employers, public and private; and

- Determine the best legislative alternatives, at both State and Federal levels, which would mandate full disclosure of industry-standard information, allowing the County to validate Kaiser Permanente and other insurers' healthcare rates.

We will need additional time to complete the work on these issues and we will provide you with a follow-up report within 60 days.

If you have any questions, please call me or your staff may contact Wayne Willard of this office at 974-2494.

WTF:DL:WGL
WW:df

Attachment

c: Executive Office, Board of Supervisors
Auditor-Controller
County Counsel
Human Resources

William H. Scott
Principal

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MERCER

MMC MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

November 14, 2007

Frank Frazier
Chief Executive Office
County of Los Angeles
500 West Temple Street
526 Hall of Administration
Los Angeles, CA 90012

Subject: Single Rating Pool - Kaiser

Dear Frank,

The County requested Mercer's opinion about whether a single rating pool with Kaiser would result in a better rate for the County. This letter provides our assessment of the likely impact of such a pool to the County's rates.

We do think that Kaiser would agree to a single risk pool for the County; however, they may further push the issue of contribution risk adjustment or buy-downs (similar to those that are currently in place for Flex/MegaFlex).

We expect that a single risk pool approach would result in the same total premium cost to the County; however, the cost to each group (Options, Choices, Flex/MegaFlex) would change based on cross subsidies created by combining the two current rating pools. In any given year, Flex/MegaFlex rates could support the Options/Choices rates - or vice versa. A single rating pool would not change the overall utilization which Kaiser uses to establish the County's rates in total; currently the total utilization is split into two groups (Options/Choices and Flex/MegaFlex). The County already receives the full benefit of its combined size when Kaiser determines the administrative charges built into the rate.

Most of a blended rate/rate increase would be driven by the Options/Choices population, as the enrollment ratio is roughly 10 Options/Choices members to 1 Flex/MegaFlex member. So, any rate change for Flex/MegaFlex that is spread across the Options/Choices population would have a small impact on the Options/Choices renewal, whereas a rate change for the Options/Choices would have a large impact on the Flex/MegaFlex renewal.

Although a single risk pool is not expected to impact the overall Kaiser premium, we do think there would be a number of challenges associated with this change, including:

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1. The establishment of a single pool would be subject to union bargaining
2. Kaiser would probably insist on retaining the risk load on certain populations - and a determination would need to be made about whether it would be appropriate to allocate this load across all groups (for example, should the Flex/MegaFlex or Options populations support the 2% load placed on Choices?)
3. A single risk pool for the Kaiser enrollment does not address the issue of the risk pool split for the Choices population between the County sponsored plans and the union sponsored plans.

Mechanics for a blended pool would need to be determined. There are at least 2 potential approaches:

- Option (A): blend all revenue to the same starting per member rate, which will blend the utilization for all populations together, and then make adjustments for benefit design differences
- Option (B): retain current differences in starting per member rates (which reflect benefit design differences and utilization differences to this point) and then apply a blended renewal percentage to all groups.

The illustrative cost impact for each option, applied to the 2008 renewal, is illustrated in the attached exhibit.

If you would like to discuss this issue in more detail, please let us know.

Sincerely,

William H. Scott

William H. Scott, ASA, MAAA
Principal

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Copy:
Marci Burns, Mercer
Jeff Whitman, Mercer
Marian Hall, County of Los Angeles
Bill Lynes, County of Los Angeles

Enclosure

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County of Los Angeles

Illustrative 2008 Renewal: Estimated impact of single Kaiser renewal pool

Option A: ***PMPM costs are blended for all groups; adjustments are then made to differentiate benefit design and unique costs (Choices 1.5% load) by group***

Option B: ***Overall renewal action is blended for all groups; adjustments are then made to differentiate renewal credits for benefit design changes and to adjust for unique costs (Choices 1.5% load) by group***

Final 2008 Renewal	Enrollment	2008 Annual Premium	2008 Renewal
Flex/MegaFlex			
Total/Premium	**4,858**	**$37,240,000**	**15.1%**
Options			
Total/Premium	**24,794**	**$205,890,000**	**0.2%**
Choices			
Total/Premium	**10,761**	**$96,360,000**	**2.2%**
Total	**40,413**	**$339,490,000**	**2.2%**

Illustrative	Option A		Option B	
	2008 Annual Premium	2008 Renewal	2008 Annual Premium	2008 Renewal
Flex/MegaFlex				
Revised annual premium/renewal increase	**$34,140,000**	**5.5%**	**$33,440,000**	**3.3%**
Annual Premium Change for blending	**($3,100,000)**		**($3,800,000)**	
Options				
Revised annual premium/renewal increase	**$207,550,000**	**1.0%**	**$208,410,000**	**1.4%**
Annual Premium Change for blending	**$1,660,000**		**$2,520,000**	
Choices				
Revised annual premium/renewal increase	**$97,800,000**	**3.8%**	**$97,640,000**	**3.6%**
Annual Premium Change for blending	**$1,440,000**		**$1,280,000**	
Total	**$339,490,000**	**2.2%**	**$339,490,000**	**2.2%**